

**Financial Related Audit:
Pension Division
Payments to Deceased Pensioners**

March 2004

Office of City Internal Auditor

City of Atlanta



CITY OF ATLANTA

LESLIE WARD
City Internal Auditor
lward1@atlantaga.gov

OFFICE OF CITY INTERNAL AUDITOR

68 MITCHELL STREET SW, SUITE 12100
ATLANTA, GEORGIA 30303-0312
(404) 330-6452
FAX: (404) 658-6077

AUDIT COMMITTEE

W. Wayne Woody, Chair
Henry A. Kelly, Vice-Chair
Johnnie L. Clark
Mayor Shirley Franklin
Council President Cathy Woolard

March 31, 2004

Honorable Mayor and Members of the City Council:

This audit of payments to deceased pensioners was added to the 2003 audit plan as a result of information provided by the Departments of Finance and Law regarding pension payments to two deceased pensioners' accounts. The Law Department's Compliance Unit conducted an investigation and determined that a former city employee, who has since pled guilty to theft, had misappropriated funds. The Law and Finance Departments identified other activities requiring further review and requested participation of the Office of Internal Audit. The audit committee has reviewed this report and now releases it to the Mayor, City Council, and the public in accordance with Article 2, Chapter 6, of the City Charter.

The audit objectives were designed to answer two questions. The questions and the answers the audit provided are:

- *To what extent did the Pension Division continue to make payments to pensioners after their dates of death?*

The Pension Division made payments totaling \$2.1 million from March 2000 through June 2003 to 454 pensioners identified by our data sources as deceased. The overpayments continued for an average of six months after a pensioner's reported date of death. These 454 pensioners represent 26 percent of the 1,767 pensioners who were reported by our data sources as deceased; the Pension Division stopped payments promptly for the remaining deceased pensioners.

- *Are internal controls adequate to provide reasonable assurance that significant errors or illegal acts will not occur or go unnoticed?*

Internal controls were very poorly designed and not functioning well during the audit period. Weak controls, poor processes, lack of supervision, and a poorly implemented information system allowed erroneous payments to deceased pensioners to continue without detection for an average of six months. Further, about \$76,000 of the \$2.1 million in overpayments was not issued in error, but was fraudulently diverted to a former Pension Division employee in the names of two deceased pensioners and one

fictitious pensioner. The opportunity for this fraud to occur was a direct result of poorly designed information system controls that allowed the same employees to create and change pensioners' records and to execute pensioners' payments. That these transactions occurred over an 18-month period without detection is further testimony to the poor procedures and lack of supervision that existed in the division.

We are encouraged that the Department of Finance began to take corrective action as problems were identified during the audit and the compliance investigation. Many of these measures are described in the Chief Financial Officer's response to the audit in Appendix 2. The report includes recommendations for additional improvements, primarily aimed at recovering overpayments, taking more initiative to identify deceased pensioners, redesigning job duties so employees do not have overly broad access to the pension/payroll information system, and more effectively supervising Pension Division staff. Several of these efforts require cooperative action by the Departments of Finance, Law, Human Resources, and Information Technology. Responses from the other departments are in Appendices 3 through 5 of this report.

We briefed the three pension boards on the audit results in executive session in December 2003. The preliminary findings and recommendations were discussed with management prior to those meetings. We sent a draft report to the above-mentioned departments on January 7, 2004, and made additional revisions to the report based on their review and comment.

The Auditor's Office appreciates the cooperation received from management and staff in the Pension Division during this audit. We also thank the management and staff from the Departments of Law, Information Technology, and Human Resources for their assistance. The audit team included Edward Holloway, Feiyong Long, and Harriet Richardson.



W. Wayne Woody
Chair, Audit Committee

Leslie Ward
City Internal Auditor

Pension Division Audit Report

Payments to Deceased Pensioners

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Introduction

A review of the Pension Division, within the Department of Finance's Employee Benefits Bureau, was conducted pursuant to Chapter 6 of the Atlanta City Charter, which established the City of Atlanta audit committee and the Office of City Internal Auditor and outlined the city internal auditor's primary duties. This audit was added to the 2003 annual audit plan as a result of information provided by the Law Department regarding pension payments to two deceased pensioners' accounts. The Law Department's Compliance Unit conducted an investigation and determined that a former city employee, who has since pled guilty to theft, had misappropriated funds. The Law and Finance Departments identified other activities requiring further review and contacted the city internal auditor to request our participation in the review. The audit committee approved the specific scope of this audit in July 2003.

This is a financial related audit, designed to determine the extent of the financial loss from payments to deceased pensioners and to examine internal controls surrounding pension payments. Since we were aware of the fraud committed by a former employee, we checked for additional frauds being committed or that occurred. We wanted to provide reasonable assurance following the audit that no major illegal activities continued to exist.

Financial related audits focus on determining whether financial information is presented in accordance with established or stated criteria, the entity has adhered to specific financial compliance requirements, or the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives. Financial related audits may include audits of segments of financial statements and financial information, internal controls over compliance with laws and regulations, and compliance with laws and regulations and allegations of fraud.¹

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington, DC: U.S. Government Printing Office, 1994, p. 5-6.

Audit Objectives

This audit report is the first of two for the Pension Division. It addresses the magnitude of payments to deceased pensioners, as well as weaknesses in the Pension Division's internal control system. It was designed to answer the following questions:

- To what extent did the Pension Division continue to make payments to pensioners after their reported dates of death?
- Are internal controls adequate to provide reasonable assurance that significant errors or illegal acts will not occur or go unnoticed?

The second report will focus on the other items identified in our original scope of work that are not specifically related to the magnitude of payments to deceased pensioners. This audit will include determining the accuracy of pension refunds, pension calculations, and 1099 tax filings.

Scope and Methodology

This audit was conducted in accordance with generally accepted government auditing standards. We conducted our audit field work and data analysis from May 2003 through January 2004. The audit covered pension payments and overpayment reimbursements made from March 2000 through June 2003 from the city's three defined benefit pension plans, which are directly administered by the Pension Division. The audit focused on pension payments beginning with March 2000 because that is when the city implemented the PeopleSoft payroll system for pensions, and the pension payment data prior to that date was not readily accessible.

The city also has a fourth plan, which is a defined contribution plan. We did not include the defined contribution plan in our audit because it is administered and managed by ING Aetna Financial Services, and the employees in the Pension Division do not have access to the funds managed by ING Aetna.

The audit methods included:

- Reviewing the work of the city's previous external auditor and coordinating with the current external auditor regarding controls in the PeopleSoft system.
- Interviewing Pension Division staff to identify current processes.
- Reviewing the Pension Division's policies and procedures.

- Comparing pension payment history to death audit reports produced by third-party sources.
- Reviewing the work of the Law Department investigators and coordinating with them on issues related to their ongoing investigation.
- Performing analyses of pensioner and pension payment data to identify the magnitude of overpayments and to identify indicators of fraud.
- Obtaining assistance from the city's Department of Information Technology and an outside consultant to extract data from the city's pension payroll system.

Our identification of deceased pensioners relied heavily on the death audit reports produced by two third-party sources, The Berwyn Group and Pension Benefit Information (PBI). These companies compared our pensioner database with other databases that track vital statistics on individuals, such as the Social Security Administration, state departments of vital records, the Railroad Retirement Board, and others, to identify active pensioners in our database who were listed in the other databases as deceased. We also included names that the Pension Division identified as likely to be deceased based on their review of unsettled estate files, life insurance claims, and dates of death recorded in the PeopleSoft system. Appendix 1 describes our data sources and the methodology we used to identify deceased pensioners.

We also assessed the reliability of data in the PeopleSoft system. Our assessment was based upon the work performed by the city's external auditors for the years 2001 (KPMG) and 2002 (Ernst & Young). We found that the transaction history matched the actual transactions performed, but we concluded that not all of the data in PeopleSoft was reliable because there was not always documentation to support the transactions made. To validate the data used in our audit, we extracted data directly from the system, performed an independent analysis, and prepared our own reports.

This report omits certain information pertaining to the fraudulent activities in the pension funds that were the impetus for this audit. The information is omitted so that we do not impair the ongoing investigation by the city's Department of Law and the Atlanta Police Department.

Background

The city has four pension payment plans. Three of these are defined benefit plans, established by the Georgia General Assembly to provide city employees with a source of income when they retire. The fourth plan is a 401(a) defined contribution plan, which covers employees hired as of July 2001 and employees who elected to change coverage plans.

The three defined benefit plans are the General Employees' Pension Plan, which includes employees from the city and the Atlanta Board of Education; the Police Officers' Pension Plan; and the Firefighters' Pension Plan. The laws establishing these plans also provide death and disability benefits under certain circumstances.

Boards of trustees administer the three defined benefit pension plans, as provided by state law. Each board consists of an appointee of the mayor, the chief financial officer, a city council member, and members elected from active and retired employees. The boards are authorized to adopt all rules necessary to manage the funds. They are responsible for ensuring that payments are made to those entitled to receive them, for investing the funds, and that an actuarial evaluation is prepared at least every three years. Exhibit 1 summarizes the three defined benefit plans.

EXHIBIT 1 SUMMARY OF THE CITY'S DEFINED BENEFIT PENSION PLANS

Pension Plan	Year Established	Employees Covered	Retirement Requirements for Normal Monthly Pension Benefits	Pension Board Members
General Employees' Pension Plan	1927	City employees, except sworn officers and fire personnel Board of Education employees, except those required to participate in the Teachers' Retirement System of Georgia	60 years old, 15 years of service	9
Police Officers' Pension Plan	1933	Police Officers	55 years old, 15 years of service	6
Firefighters' Pension Plan	1924	Firefighters	55 years old, 15 years of service	6

SOURCE: City of Atlanta Code of Ordinances and Ordinance 92-O-0119.

At the time the audit began, the Pension Division had 13 authorized positions. The division is responsible for the administrative activities associated with the three defined benefit pension plans and for processing transactions and the monthly pension payroll for these plans. They perform administrative activities for the pension boards, including responding to outside requests for the boards, administering board elections, taking minutes at the monthly pension board meetings, and board correspondence. They also perform administrative activities related to actuarial services and fund administration, including paying expenses and fees and serving as a liaison with the actuary and fund administrators.

Findings and Recommendations

Summary

The Pension Division made payments totaling \$2.1 million from March 2000 through June 2003 to 454 pensioners identified by our data sources as deceased. The overpayments continued for an average of six months after a pensioner's reported date of death. These 454 pensioners represent 26 percent of the 1,767 pensioners who were reported by our data sources as deceased; the Pension Division stopped payments promptly for the remaining pensioners. The overpayments included \$75,690 that was fraudulently diverted to a former Pension Division employee in the names of two deceased pensioners and one fictitious pensioner.

The pension overpayments and fraud occurred as a result of inadequate policies and procedures for monitoring pension payments. Primarily, three internal control weaknesses led to these activities:

- An ineffective process for identifying deceased pensioners.
- Poor segregation of duties among Pension Division staff, which included employee access to multiple major functions in the PeopleSoft payroll system.
- Poor supervision of work performed by subordinates.

To strengthen internal controls surrounding pension payments, we recommend that the Pension Division establish a policy and procedure to collect pension overpayments made to deceased pensioners, develop a more proactive process for identifying deceased pensioners, segregate duties so employees generally have access to only one major job function within PeopleSoft, and more closely monitor the work of subordinates. We also recommend that Pension Division staff follow up on returned pension payments, coordinate with the Insurance Division to identify pensioners for whom life insurance claims have been made, verify annually whether surviving spouses have remarried, and establish procedures to ensure that documents supporting system transactions are filed promptly. The interim director of the division has initiated several of these changes during the course of the audit. We also recommend that the Pension Division develop performance measures, including a measure of the timeliness for stopping payments after a pensioner's death, to monitor how well it is accomplishing its mission.

\$2.1 Million Was Paid to 454 Pensioners After Their Deaths

The Pension Division paid \$2.1 million during the audit period of March 2000 through June 2003 to 454 (26%) of the 1,767 pensioners who were reported by our data sources as deceased. The payments were made from all three defined benefit pension funds. We considered payments to a deceased pensioner that were stopped within one payment from the date of death to be timely. As a result, our estimate of the magnitude of overpayments included only those deceased pensioners who received more than one payment after their date of death. Exhibit 2 shows the magnitude of overpayments to deceased pensioners by fund.

EXHIBIT 2 MAGNITUDE OF OVERPAYMENTS TO DECEASED PENSIONERS MARCH 2000 THROUGH JUNE 2003

Fund	Number of Pensioners	*Gross Overpayments	Uncashed Checks	Reimbursements of Overpayments	Adjusted Gross Overpayment (Net Loss)
GENERAL					
City	164	\$ 812,725	\$ 82,216	\$ 48,031	\$ 682,478
Board of Education	<u>230</u>	<u>1,106,781</u>	<u>68,013</u>	<u>95,903</u>	<u>942,865</u>
SUBTOTAL GENERAL	394	\$1,919,506	\$150,229	\$143,934	\$1,625,343
POLICE	37	\$ 119,737	\$ 21,197	\$ 19,987	\$ 78,554
FIREFIGHTERS'	<u>23</u>	<u>62,794</u>	<u>2,932</u>	<u>5,541</u>	<u>54,322</u>
TOTAL ALL FUNDS	454	\$2,102,038	\$174,358	\$169,461	\$1,758,218

* Gross overpayments include payments to all pensioners meeting our selection criteria, which we defined as any payments made after the month of death. It represents the amount paid before deductions, adjusted for the number of days the pensioner lived in the month of death and to account for recoveries of overpayments through reductions in beneficiary payments.

NOTE: The dollar amounts in the Total All Funds row may not equal the exact sums of the numbers above due to rounding.

SOURCE: Audit staff analysis of death audit reports provided by third-party sources, deceased pensioner data provided by the Pension Division, and pension payment data extracted from the PeopleSoft system.

Majority of Overpayments Were From the General Plan

Exhibit 2 shows that the General Plan had a large majority of both the overpaid pensioners and the monetary amount of the overpayments, accounting for 394 pensioners and \$1.9 million in overpayments. This represents 87 percent of the overpaid deceased pensioners and 91 percent of the total pension overpayments. The Police and

Firefighters' Plans collectively accounted for only 13 percent of the overpaid pensioners and 9 percent of the pension overpayments.

We made two adjustments to the gross overpayment amounts to arrive at a net loss of over \$1.6 million to the General Employees' Pension Fund and almost \$1.8 million to all three pension funds, which are shown in the last column in Exhibit 2. The first adjustment, uncashed checks, was for checks disbursed to pensioners but not presented to a bank for payment. The second adjustment was for reimbursements of overpayments, which are monies reimbursed to the city by deceased pensioners' estates after the city notified them of an overpayment.

It is likely that some of the direct deposit payments to deceased pensioners were never withdrawn from their bank accounts and could be available for recovery by the city, which would further reduce the net loss to the funds. We did not calculate the amount that might be recoverable from direct deposit payments because doing so would have required access to each of the accounts to which pension payments were made, which was beyond the scope of this audit.

Overpayments Continued for an Average of Six Months After a Pensioner's Death

Pension payments continued, on average, for six months (177 days) after a pensioner died. We determined that 454 pensioners received payments after the month of their death. A small number of the 454 pensioners (8) received payments in 30 days or less after death either because they received an off-cycle payment² or they died within a few days of the end of a month. The Pension Division stopped about one-third of the overpayments within 60 days after death, over half within 90 days, and almost two-thirds within 120 days. Forty pensioners continued to receive pension payments for over 360 days after their death, with the longest period of overpayment continuing for 3,173 days, or about 8 years and 8 months. Exhibit 3 shows the distribution of the number of days after death before the Pension Division stopped payments to the 454 deceased pensioners.

² An off-cycle payment is one that is processed on a date outside of the normal pay cycle. These payments generally occur when pensioners report that they did not receive their usual pension payment. There is not sufficient documentation to determine why deceased pensioners would have received off-cycle payments.

EXHIBIT 3
DISTRIBUTION OF DAYS TO STOP OVERPAYMENTS

Range	Number of Pensioners	Cumulative Percentage
1 - 15	2	0.4%
16 - 30	6	1.8%
31 - 45	80	19.4%
46 - 60	64	33.5%
61 - 90	90	53.3%
91 - 120	57	65.9%
121 - 180	55	78.0%
181 - 360	60	91.2%
361 - 720	21	95.8%
721 - 1080	9	97.8%
Greater than 1080	10	100.0%

SOURCE: Audit staff analysis of pension payroll data for deceased pensioners.

Payments to Deceased Pensioners Ranged From a Few Hundred Dollars to Over \$70,000

The dollar amounts of the overpayments to the 454 deceased pensioners ranged from a few hundred dollars to more than \$70,000. Nearly one-third (30%) of the deceased pensioners received overpayments of less than \$1,000, and more than half (51%) received overpayments of less than \$2,000. Forty-five (10%) received overpayments exceeding \$10,000. Exhibit 4 shows the range of the overpayments to deceased pensioners.

EXHIBIT 4
DOLLAR RANGE OF OVERPAYMENTS TO DECEASED
PENSIONERS

Range	Number of Pensioners	Cumulative Percentage of Pensioners
0 - 1,000	134	29.5%
1,001 - 2,000	99	51.3%
2,001 - 3,000	64	65.4%
3,001 - 4,000	31	72.3%
4,001 - 5,000	31	79.1%
5,001 - 6,000	17	82.8%
6,001 - 7,000	10	85.0%
7,001 - 8,000	13	87.9%
8,001 - 9,000	5	89.0%
9,001 - 10,000	5	90.1%
10,001 - 15,000	20	94.5%
15,001 - 20,000	6	95.8%
20,001 - 30,000	7	97.4%
30,001 - 40,000	3	98.0%
40,001 - 50,000	4	98.9%
50,001 - 60,000	1	99.1%
60,001 - 70,000	3	99.8%
Greater than 70,000	1	100.0%

SOURCE: Audit staff analysis of overpayments to deceased pensioners.

Deceased Pensioners Identified Through Various Sources

Our primary sources for identifying pensioners who continued receiving payments after their date of death were the death audit reports provided by The Berwyn Group and Pension Benefit Information (PBI). These two companies compared the city's database of active pensioners with other databases to identify pensioners who had been reported to other entities as deceased. We also used data provided by the Pension Division that they obtained from unsettled estate files, life insurance claims, and dates of death recorded in the PeopleSoft system. We developed a hierarchy for use of the data sources based on where the information came from regarding a pensioner's death. Where possible, the Pension Division validated the names on our list of deceased pensioners by obtaining death certificates from the deceased pensioners' families or from state vital records. As of January 2004, the Pension Division had confirmed 364 (80%) of the 454 pensioners as deceased. Appendix 1 provides

details regarding the methodology we used to identify deceased pensioners.

Collection Efforts Should Focus on Largest Overpayments

The Pension Division should attempt to recover as many of the overpayments as possible to reduce their financial impact on the pension plans. The city has begun to collect some of the overpayments, and some families voluntarily reimbursed the city after being informed of an overpayment. However, only \$169,461 had been repaid through June 2003 (see the column, "Reimbursements of Overpayments," in Exhibit 2).

An aggressive collection policy should be developed to strengthen this effort. The policy should focus efforts where the most cost-effective recovery can be made. We prepared an analysis of the dollar distribution of the pension overpayments to assist in determining an appropriate collection policy and in setting collection targets. This analysis is based on the adjusted gross overpayments shown in Exhibit 2 because the city would not need to recover the amount paid in checks that were never cashed or the amount that pensioners' families have already reimbursed. Because of these adjustments, the number of overpaid pensioners to collect from would be reduced from 454 to 430. Exhibit 5 shows the results of our analysis.

EXHIBIT 5 TARGET COLLECTION PERCENTAGES

Target Percentage of Overpayment to Collect	Amount That Would Be Collected	Number of Pensioners to Collect From (Cumulative)	Percentage of Pensioners
95%	\$1,670,377	234	51.5%
90%	\$1,581,815	180	39.6%
80%	\$1,408,973	113	24.9%
70%	\$1,231,955	72	15.9%
60%	\$1,059,329	46	10.1%
50%	\$ 883,425	29	6.4%
40%	\$ 705,006	17	3.7%
30%	\$ 547,872	11	2.4%
20%	\$ 359,369	6	1.3%

SOURCE: Audit staff analysis of overpayments to deceased pensioners.

Exhibit 5 shows that 80 percent (\$1.4 million) of the overpayments were issued to 25 percent (113) of the deceased pensioners. These

113 payments represent the largest overpayments to deceased pensioners and the ones that should be sought after first for recovery. It is important to note, however, that the ability to recover the overpayments may be dependent upon a number of factors, including expiration of the statute of limitations, whether a pensioner's estate has been closed, and who actually received the payments.

The City Incurred Losses for Benefits for Deceased Pensioners

In addition to the overpayment costs to the pension funds, the city's insurance fund incurred costs of \$104,090 for the city's share of medical and life insurance premiums paid on behalf of deceased pensioners who continued to receive pension payments.³ The city cannot recover most of these costs because the contracts with the insurance companies limit the time during which the city can recover premium overpayments. However, the city should seek reimbursement of premiums paid after the date of death for life insurance policies that paid claims because there would no longer be a policy against which to assess the premium. Exhibit 6 shows the breakdown of these costs by year.

EXHIBIT 6 CITY'S COST OF BENEFITS ON PENSION OVERPAYMENTS MARCH 2000 THROUGH JUNE 2003

Year	City's Cost of Benefits
2000	\$ 19,905
2001	36,386
2002	32,932
2003 (through June)	<u>14,867</u>
TOTAL	\$104,090

SOURCE: Audit staff analysis of pension overpayments.

Overpayments Included \$75,690 in Fraudulent Payments to a Former City Employee

The pension overpayments included \$75,690 paid through direct deposits to a bank account controlled by a former Pension Division

³ The PeopleSoft system did not report the amount of insurance premiums paid on behalf of Board of Education pensioners. Thus, the combined loss to the City of Atlanta and the Board of Education could be more than what we identified here.

employee. The payments were made in the names of two deceased pensioners and one fictitious pensioner. The city became aware of the fraudulent payments to the two deceased pensioners in early 2003. The Law and Finance Departments requested this audit as a result of their investigation into the payments to those two pensioners. The former city employee has since pled guilty to theft.

We devised a series of extensive audit tests to provide reasonable assurance that other frauds were not happening or had not occurred in the pension system. Our tests included various analyses on pensioner and pension payment data. These included tests on pensioner names, addresses, social security numbers, and method of payment, as well as tests on the amounts of individual payments and the number of pension payments to each pensioner in a single year.

Our audit tests identified additional methods that were used to divert pension funds into the bank account controlled by the former city employee. These methods included creating a fictitious pensioner and going into the PeopleSoft system to increase the gross amount of the monthly pension payments.

Lack of Procedures and Poor Controls Allowed Overpayments and Fraud to Occur

Internal controls are a major component of managing an organization. A strong system of internal controls provides reasonable assurance that resources are safeguarded from loss, waste, and abuse. Preventive controls deter undesirable events (e.g., errors or irregularities such as fraud) from occurring, and detective controls uncover an undesirable event after it has occurred.

Our review of the Pension Division's controls concerning pension payments identified a system of weak internal controls. The control system did not prevent errors or fraud from occurring, nor did they detect them when they occurred. Three primary areas need immediate focus:

- The process for identifying deceased pensioners to stop payments needs improvement.
- The separation of duties for critical functions is inadequate.
- Division supervisors do not adequately monitor the work of subordinates.

The Pension Division is an environment where fraud could and did occur. Our recommendations focus on making improvements to the internal control system, including using more initiative to identify deceased pensioners promptly, narrowing access to major functions in the PeopleSoft payroll system, and requiring more direct oversight of employees' work.

Division Needs Process for Identifying Deceased Pensioners and Stopping Payments Promptly

The Pension Division did not have an adequate system for obtaining information regarding deceased pensioners. They relied heavily upon family members to contact the city when a pensioner died, with no follow-up on other indicators of a death. The magnitude of overpayments, as well as missed opportunities to identify deceased pensioners, makes it clear that the Pension Division must develop a proactive process that is less reliant upon family members' notification of a pensioner's death.

Inadequate follow-up on family member notifications of a pensioner's death. Although the Pension Division relied heavily upon family members to notify the city when a pensioner died, it did not necessarily stop a pensioner's payments upon such notification. For example, the Pension Division continued payments to a deceased pensioner if a family notified the city of a pensioner's death but did not provide documentation (e.g., a death certificate) to verify the death. This is the major reason it took an average of 177 days to stop payments to deceased pensioners.

Additionally, the process for obtaining information from family members was not systematic. A standardized checklist was not used to obtain appropriate details from the informant. The Division lacked a standard procedure to ensure that family members were provided information regarding eligibility for beneficiary payments, to impress upon them the obligation of reimbursing payments after the date of death, or to emphasize the need for documentation to close the file. Information from family members was often written on scraps of paper that did not include contact information for follow-up. The scraps of paper generally were not put in the pensioners' files, making it difficult to determine when the city first became aware of a pensioner's death.

Inadequate follow-up on death audit reports. The Pension Division did not have an established process for following up on pensioners

listed in PBI's death audit reports as deceased. Although the Pension Division had used PBI in the past, it had not obtained updated reports for 18 months prior to the audit. The Pension Division obtained a new death audit report in May 2003 after becoming aware of the fraud that had occurred and the pattern of overpayments to deceased pensioners. That report listed 171 pensioners who had been reported to the city on a previous death audit report. Seventeen of those pensioners continued to receive payments after their date of death and were included among the 454 deceased pensioners in our analysis. If the Pension Division had stopped paying those 17 pensioners when it received PBI's death audit report in January 2002, the city would have paid \$138,481 less to deceased pensioners. Two of the deceased pensioners on the January 2002 PBI report were used in the fraud committed by the former Pension Division employee. If the Pension Division had stopped paying those two pensioners when it received that report, one fraud could have been exposed sooner and the other could have been prevented altogether. After this audit began, Pension Division management initiated a practice of following up on names listed on the third-party death audit reports and stopping payments for those verified as deceased.

Inadequate process for following up on returned checks and direct deposit advices. The Pension Division missed other opportunities to identify deceased pensioners by not following up on returned checks and direct deposit advices. Because no one in the Pension Division was responsible for following up on why checks and direct deposit advices were returned, the returned documents were not used to initiate an inquiry into whether a pensioner was deceased. The established practice was to continue sending checks to pensioners whose checks were returned to the city and to change direct deposit payments to check payments for those pensioners whose direct deposit advices were returned. Pension Division management changed this practice during the audit, and payments are now stopped immediately upon receipt of a returned check or advice.

Inadequate process for following up on uncashed checks. The Pension Division also did not have a process to routinely identify and follow up on pension checks that were not cashed. We reviewed the checks issued during the audit period to pensioners whose payment method was changed to a mailed check after their direct deposit advice was returned. We determined that 77 checks were issued to these pensioners and 52 (68%) of them were never cashed. Pension Division employees could have identified deceased pensioners much sooner had they received a report of uncashed checks and followed

up on why the checks were not cashed. They also could have identified deceased pensioners sooner if they had followed up on why direct deposit advices were returned rather than using the returned advices as a basis for changing the method of payment to a check. It is clear that changing the method of payment from direct deposit to a check after a direct deposit advice was returned was not a good business practice.

Inadequate process for identifying deceased pensioners through life insurance claims. Our review of life insurance claims for deceased pensioners showed that there was an opportunity to stop payments to 51 of the 454 pensioners who received pension payments after their death, for a total of \$251,208. The Pension Division did not act upon the opportunity because the Insurance Division did not inform the Pension Division when life insurance claims had been filed. No formal procedure existed for the Insurance Division to inform the Pension Division of claims filed on the life insurance policies. The Insurance Division should notify the Pension Division of all life insurance claims received and give the Pension Division a copy of the death certificate provided to support the claim. Pension Division management established a process during the audit to improve coordination with the Insurance Division regarding deceased pensioners.

Entering date of death does not automatically stop pension payments. Upon notification of a pensioner's death, Pension Division staff input the date of death into PeopleSoft. This action alone, however, does not stop the pension payments from continuing. Stopping a pension payment is a two-step process. Staff must also go to the pension status screen and change the status to deceased. However, this additional step does not always occur, and the PeopleSoft system does not notify the user that the process has not been completed. Additionally, the system does not produce an exception report to identify pensioners who have dates of death entered in the system but continue to receive pension payments. The lack of an exception report prevents the Pension Division from identifying those pensioners who continue to receive payments after being confirmed as deceased.

The lack of follow-up on family notifications that a pensioner has died and the missed opportunities for identifying deceased pensioners by other means indicate that the Pension Division must take more initiative to identify deceased pensioners. Pension Division management should develop a comprehensive set of written procedures with clearly assigned responsibilities. The procedures should ensure that staff promptly obtain death certificates from family

members or the Insurance Division, follow up on pensioners identified by third-party sources as being deceased, follow up on why checks and direct deposit advices were returned, and obtain monthly reports of uncashed checks to investigate why checks have not been cashed.

Duties of Critical Job Functions Must Be Separated

A recent study by the Association of Certified Fraud Examiners identified strong internal controls as the “most effective anti-fraud measure by a wide margin.”⁴ In any environment, a strong system of internal controls means separating duties that, if performed by one employee, could provide an opportunity for that employee to misappropriate assets and conceal the fraud. In a payroll environment, the tasks associated with creating master records, updating those records, and processing payroll should each be assigned to different employees. The risk of allowing a single person to perform these tasks is that there is no system of checks and balances to identify when someone has committed a fraudulent activity, such as creating a fictitious employee and then processing the payroll for that employee.

The PeopleSoft system used to process the pension payroll has three major functional areas used by Pension Division employees:

- Master Files - This function allows a user to create the master record for employees and pensioners. These records contain personal data (e.g., name, date of birth, social security number) and other information such as employment status and authorized compensation rate.
- Master File Maintenance - This function allows a user to change master records, including address changes, payroll deductions, withholding exemptions, and method of payment (i.e., check or direct deposit).
- Payroll - This function allows a user to process the payroll, including issuing checks or transmitting direct deposits.

According to internal control guidelines, responsibility for performing tasks under these three functions should be assigned to separate individuals.

Users’ assigned security classes determine their access capabilities. The security classes also determine whether a user can make changes

⁴ Association of Certified Fraud Examiners, *2002 Report to the Nation: Occupational Fraud and Abuse*, Austin, TX, 2002, p. 12.

in the system or only perform inquiries. Some users have multiple security classes to give them broader access than they would have with a single security class.

Many users' access to the PeopleSoft system is too broad. The security classes assigned to Pension Division employees allow too many individuals to have access to each of the major functions in the PeopleSoft system. Presently, 23 city employees have access to all three of the major functions, and 12 additional employees have access to two of the major functions. This is a significant internal control weakness because the same employee can add pensioners to the system, change pensioner information, and authorize payments.

This broad system access is the condition that allowed a former employee in the Pension Division to commit payroll fraud. The fraud was uncovered as a result of information provided by the Atlanta City Employees Credit Union to the Pension Division and the Law Department. The former employee diverted pension payments for two deceased pensioners and for a fictitious pensioner to an account under her control because she had access to all three major functions in the PeopleSoft system. The \$75,690 taken by fraud represents just over three percent of the gross pension overpayments.

Pension Division access in PeopleSoft was not limited to pensioners' records. Additionally, the security classes assigned to Pension Division employees did not limit their access to pensioners' information only. This meant that Pension Division employees also had the ability to create new employee records, access and change the records of any current employee, and process regular payroll. We did not look at whether any Pension Division employees performed transactions related to the regular employee payroll because it was beyond the scope of this audit. However, we expect to review payroll transactions during a payroll audit that we will begin later in 2004.

Improving system security will require realignment of job functions. Some Pension Division employees currently require access to more than one major function in PeopleSoft because of the way their jobs are structured. Several of the employees are responsible for a function from beginning to end. For example, the employees responsible for pension payroll created pensioner master records for Board of Education retirees and surviving spouses and dependent children, made changes to pensioners' data (e.g., updating their addresses and changing their method of payment), and processed the payroll. Correcting the internal control weakness to improve system

security will require management to review how the positions are currently structured and realign them to divide tasks among employees in a way that will not require anyone to have access to more than one major function in PeopleSoft. Potential ways of accomplishing these changes could include:

- Transferring the function of creating new pensioner records to Human Resources, which currently creates new employee records, so that only human resource employees would have the ability to create master records.
- Centralizing the pension and employee payroll functions and allowing only payroll employees to have access to the payroll functions in PeopleSoft.
- Realigning responsibilities within the Pension Division so that employees would only have access to the file maintenance functions in PeopleSoft.

Once employees' positions have been restructured, Pension Division management should work with the Department of Information Technology to reassign security classes to employees based on their new job tasks.

Other Internal Control Weaknesses Should Be Remedied

In addition to the internal control weakness regarding system security, we identified two other weaknesses regarding pension payments:

- The Pension Division did not have a procedure for verifying social security numbers.
- The Pension Division did not have a procedure for identifying surviving spouses who became ineligible for continued pension payments due to remarriage.

Pension payments made under inaccurate social security numbers.

The Pension Division did not have a process to verify social security numbers with the Social Security Administration (SSA). Board of Education retirees and surviving spouses and dependent children have to be added to the PeopleSoft system upon becoming eligible to receive pension payments. The Pension Division has not consistently requested copies of these pensioners' social security cards, nor have they implemented a process to validate the social security numbers through the SSA. Validation of social security numbers is needed to uncover erroneous names and numbers to ensure accurate reporting of payroll data to the Internal Revenue Service (IRS) at the end of

each year.⁵ Validation can also help prevent fraud by uncovering fictitious employees that have been illegally added to the payroll.

The Berwyn Group and PBI both identified pensioners whose names and social security numbers did not match the SSA records. Based on the number of nonmatching social security numbers in these reports, we submitted the entire pensioner database to the SSA for verification. The SSA identified 199 (2%) of the 9,475 pensioners submitted whose names and social security numbers did not match the SSA's records. This figure includes Board of Education retirees and surviving spouses and dependent children whose names were added to the PeopleSoft system when they began receiving pension payments, as well as former city employees (i.e., retirees) who were already in the payroll system when they retired. The number of nonmatching social security numbers indicates that the Pension Division should establish a process for validating social security numbers to ensure accurate reporting to the IRS and to identify fictitious pensioners.

The Pension Division should establish a process for verifying the accuracy of pensioners added to the system. This should include requesting a copy of a pensioner's or beneficiary's social security card when the person applies for pension benefits, as well as verifying through the SSA that the number provided is accurate.

No process to determine if a surviving spouse has remarried. Under each of the three defined benefit plans, a surviving spouse is entitled to continue receiving a deceased retiree's benefits. However, prior to 1986 a retiree could opt for the surviving spouse to lose the benefits upon remarriage. For those employees hired after January 1, 1986, an amendment to the pension plans (the "1986 Amendment") allows surviving spouses to remarry without losing their survivor benefit.

The Pension Division did not have a process for determining if a surviving spouse receiving beneficiary pension payments had remarried. We attempted to identify surviving spouses who had remarried, but found that it was impossible to verify through third-party sources (e.g., the counties where marriage records are maintained or the IRS). The counties require that they be provided the husband's full name, wife's maiden name, and date of marriage to confirm marriage information. This requirement essentially means

⁵ The IRS can fine employers for inaccurately reporting payroll information. The second audit report of the Pension Division will include an analysis of the accuracy of the city's reporting of pension payments to the IRS.

that we would already have sufficient information to know that a spouse had remarried. Due to privacy laws, the IRS will not provide information for us to determine if a spouse had changed the marital status used on the tax return.

To overcome the lack of third-party resources available to verify remarriage information, the Pension Division should implement a procedure to have surviving spouses verify that they have not remarried. This should include requiring surviving spouses not covered under the 1986 amendment to sign an affidavit annually confirming that they have not remarried. The affidavits should be used as supporting documentation to stop pension payments for surviving spouses who have become ineligible for beneficiary pension payments due to remarriage.

Monitoring and Supervision Have Been Weak

A recent report by the Institute of Internal Auditors Research Foundation identified management review of computer audit reports as a tool for “proactive detection which attempts to identify fraudulent transactions as close to the origination time as possible.” The report also states that monthly or weekly reporting is needed for key risks and daily reporting for high risks.⁶

The Pension Division managers did not routinely review PeopleSoft reports to follow up on transactions performed by their subordinates. They also did not routinely monitor and follow up on the day-to-day activities of their subordinates. As a result, the employees did not follow standardized policies and procedures in performing their work. It was this lack of review that allowed the fraud by the former employee and the pension overpayments to go undetected. To ensure that only authorized transactions are performed and that the Pension Division effectively accomplishes its mission, the managers should be:

- Monitoring system exception reports.
- Performing quality control checks (verification) of data input into the system by subordinates. Routine verification would allow entry of unauthorized data to be identified much sooner.
- Requiring employees to follow established policies and procedures.
- Requiring employees to provide updates on files pending closure.

⁶ Lanza, Richard B., *Proactively Detecting Occupational Fraud Using Computer Audit Reports*, Altamonte Springs, FL: IIA Research Foundation, 2003, p. 11.

- Establishing performance measures, including standards for productivity and timeliness, to ensure that employees are meeting established performance requirements.

Process for Filing Pension Documents Is Inefficient

A strong example of the lack of policies and procedures and inadequate monitoring of employees' work is the inconsistency in filing documents supporting master record changes made in the PeopleSoft system. During the audit we identified and reviewed several large accordion files of documents that had not been filed in the appropriate pensioner folder. Sometimes they were alphabetized, but typically there was no particular order to them, which prevented anyone from easily finding the documentation to support changes made to a pensioner's master record. The bulk of the documents were from the year 2000 to the present; however, we found some documents dated as early as 1994. The unfiled documents included address changes, requests to start or stop direct deposits, changes in withholding exemptions, changes in deductions, and power of attorney forms. We estimate that there are thousands of unfiled documents.

The Pension Division should establish a process to clear the backlog of unfiled pension documents. It should also establish a performance expectation that filing is a routine part of the process to ensure that all future documents received are filed as they are processed. In the future, the feasibility of implementing an electronic filing system should be considered to streamline the filing process and to reduce the volume of paper required to be maintained.

Previous Audit Findings on PeopleSoft Were not Corrected

In 2001 and 2002, the city's previous external auditor, KPMG, identified several internal control weaknesses surrounding the city's PeopleSoft system and its payroll and pension processes. KPMG provided numerous recommendations to correct these weaknesses; however, we found that several of the conditions still exist and contributed to the findings identified in this report. Although two of the frauds had already been committed by the former Pension Division employee at the time KPMG issued its first report, the third fraud could have been prevented through timely implementation of KPMG's recommendations. The following are findings that KPMG reported as a result of its work and that we also included as findings in this report:

- Segregation of duties issues exist in processes where one individual is performing most or all system functions in a given area.
- The city does not properly restrict access to PeopleSoft functions.
- Security classes may give users access to areas that they should not have access to.
- Exception reports are not produced and reviewed to ensure the accuracy and integrity of data entered into PeopleSoft.
- Reports are not used to ensure that changes in PeopleSoft data were approved and made by an authorized user.

The city's payroll and pension processes will continue to be subject to error and fraudulent activity until the city commits the effort and resources necessary to correct the internal control weaknesses in the PeopleSoft system and processes.

Recommendations

Our recommendations identify improvements that will strengthen the current control environment and introduce more effective management over the pension processes. They build on management initiatives already begun by the interim director of Employee Benefits during the audit.

- 1. Recover Past Overpayments to the Extent Feasible.** The Chief Financial Officer and the City Attorney should develop and implement a policy to recover the overpayments to deceased pensioners and overpayments for the deceased pensioners' insurance benefits. To maximize the effectiveness of the recovery effort, the policy should include a comprehensive strategy to:
 - a. Prioritize efforts based on the potential for cost-effective recovery, considering both the amount and age of the overpayments and using the gross overpayment as the amount to be sought. Exhibits 4 and 5 of this report may be useful in establishing such priorities.
 - b. Identify appropriate resources to research and investigate the circumstances under which each overpayment occurred and to pursue recovery using the appropriate courses of legal action.
 - c. Establish appropriate provisions for repayment schedules and imposing administrative fees and/or interest.
 - d. Make appropriate efforts to obtain reimbursements of medical and life insurance premiums paid for deceased pensioners. Reimbursements should be sought for both the pensioners' and the city's shares of premiums. Recovery of pensioners' amounts should offset overpayments recovered from family members, estates, or other parties liable for repayment.
 - e. Assure compliance with federal and state tax reporting requirements by issuing corrected Forms 1099-R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., and Forms 945, Annual Return of Withheld Federal Income Tax, when overpayments are recovered.
- 2. Identify Deceased Pensioners, Stop Payments, and Recover Overpayments More Promptly in the Future.** The Director of Employee Benefits should establish a process to identify deceased pensioners as close to their dates of death as possible, and to stop payments and initiate action to recover overpayments immediately upon verification of a pensioner's death. The process should include:

- a. Developing and using a standard intake form for family notifications of a pensioner's death. The form should require basic information for each pensioner, such as the date and place of death (for situations where the city may need to contact a state to obtain a death certificate), and contact information for follow up. The form should also include a list of information to be provided to each informant, such as documentation needed to verify the death (e.g., a death certificate), the requirement to reimburse the city for pension payments after the date of death, and the process to initiate pension payments to beneficiaries.
- b. Using third-party sources, such as The Berwyn Group or PBI, at least once per quarter to identify pensioners who may be deceased and establishing a process to verify that pensioners listed in death audit reports are in fact deceased.
- c. Establishing a timeline and a process for verifying that a pensioner has died when the family does not provide a death certificate as requested. This process could include an off-cycle verification with the third-party source (i.e., The Berwyn Group or PBI), verification through the SSA's death index master file, and a request to state vital records for a copy of the death certificate.
- d. Stopping pension payments immediately upon receipt of a returned check or direct deposit advice. These payments may be restarted if a pensioner contacts the Pension Division and provides updated information regarding their new address. (NOTE: This recommendation is consistent with a procedural change made by Pension Division management during the course of the audit.) Checks should also be printed with the words, "Void after XX days." The Department of Finance should do the appropriate accounting entries to return to cash any checks that appear on the uncashed check report for more than XX days.
- e. Obtaining a monthly report of uncashed pension checks and following up with the pensioner to determine why a prior month's check was not cashed. The Pension Division should stop payments immediately if a pensioner does not cash a check for two consecutive months and attempts to contact the pensioner are unsuccessful.
- f. Coordinating with the Insurance Division to obtain the names of pensioners whose life insurance policies have had claims made against them. This process should include obtaining copies of death certificates submitted to the Insurance Division in support of claims against deceased pensioners' policies.

- g. Developing an exception report to identify where a pensioner's date of death has been entered but the pension payment has not been stopped. The Department of Finance should coordinate with the Department of Information Technology to implement a change within PeopleSoft to link the date of death field with the status change field. The change would provide a message when the date of death is entered to remind the user that the status change field must also be changed to actually stop the pension payments. The system should not allow the user to sign off until both fields have been properly updated. Once this link is complete, the need for the exception report will be eliminated.
- h. Immediately notifying the pensioner's estate or family of an overpayment and seeking recovery based on the guidelines in the policy developed through Recommendation 1 above. The notice should provide a deadline for contacting the Pension Division to make arrangements for repayment, as well as information about additional enforcements actions and other remedies that the city may pursue if repayment is not made.

- 3. Segregate Major Job Functions.** The Director of Employee Benefits should segregate major duties, both with regard to day-to-day assignments and tasks performed in the PeopleSoft payroll system, to ensure the same person does not perform multiple functions that could allow them to commit fraud. This will require management to review current responsibilities and the PeopleSoft security classes assigned to each employee to identify where reassignments are needed. A general guide should be to restrict access for each employee to a single function in the PeopleSoft system. We recommend that:
- a. Pension Division employees be limited to accessing only the file maintenance functions in PeopleSoft.
 - b. The payroll functions for regular employees and pensioners be consolidated and that the employees who perform the payroll tasks be restricted to accessing only the payroll functions in PeopleSoft.
 - c. The ability to create pensioner master files (e.g., for Board of Education retirees and for surviving spouses and dependent children) be transferred to Human Resources and that those employees be restricted to accessing only the master file records.

After identifying how the jobs are to be aligned, the Director of Employee Benefits should coordinate with the Chief Information

Officer to reassign security classes to employees so their access to the PeopleSoft system is limited to only those job functions that they support.

The Director of Employee Benefits should also work with the Chief Financial Officer, the Commissioner of Human Resources, and the Chief Information Officer to review the access capabilities of other city employees, including those in the Department of Information Technology and elsewhere in the Department of Finance, to ensure that others do not have access capabilities that could compromise system security or enable them to commit fraud. For many other city employees, inquiry access may be all that is needed. For Information Technology employees, access should be limited to only those job functions that they support.

- 4. Obtain Affidavits to Identify Remarried Spouses.** The Director of Employee Benefits should establish a process to identify the pool of surviving spouses who become ineligible for spousal pension benefits upon remarriage. The Pension Division should send an annual letter to each of these surviving spouses explaining the conditions of continued eligibility for a survivor's pension and to request the spouse to complete and return an affidavit to the city declaring that they have not remarried. The letter should state that falsification of the affidavit constitutes fraud and may result in criminal prosecution. Furthermore, the letter should state that the city will require the spouse to reimburse pension payments, with interest, made after the remarriage date.
- 5. Monitor the Work of Subordinates.** The Director of Employee Benefits should hold Pension Division managers accountable for better supervision of their subordinates. We recommend that the required elements of supervision include:
 - a. Maintaining tighter controls over data input through review and approval of batch control sheets. Employees should submit the control sheets, along with supporting documents, to the managers for approval before the changes are made in PeopleSoft.
 - b. Reviewing system reports on a monthly basis. Managers should obtain PeopleSoft reports, such as control reports, exception reports, reports of off-cycle transactions, and reports of pensions started and stopped. They should compare these reports with copies of the batch control sheets

to ensure that only approved changes were made in the system.

- c. Establishing a procedure to ensure that employees acquire and maintain appropriate documents for pensioner files, to include following up on requested documents.
- d. Establishing a procedure to ensure that employees stop payments promptly after receiving notification of a pensioner's death. This should include a process for receiving copies of death audit reports, life insurance claims, and other death notifications, and comparing them with the names of pensioners listed on the monthly report of pensions stopped. Employees should be questioned to determine reasons why pensions have not been stopped.
- e. Periodically comparing the names of pensioners whose payments have been stopped and names on the death notification lists against future pension payment reports to ensure that a payment has not been restarted for any deceased pensioner.
- f. Monitoring file maintenance to ensure that all key documents are processed and filed in each pensioner's file shortly after receipt.
- g. Establishing performance standards for employees and monitoring their performance based on those standards.

6. Improve Filing Procedures. The Director of Employee Benefits should develop a plan to eliminate the backlog of unfiled documents and to establish a process to ensure that future documents received in support of pensioner transactions are promptly filed. Additionally, the Pension Division should develop a checklist of key documents required for each pensioner's file indicating dates the documents were requested and received.

Pension Division management should consider the feasibility of an electronic filing system in the future. Such a system will require less physical space, as well as streamline the filing process.

7. Develop Performance Measures. The Director of Employee Benefits should establish performance measures to determine how well the division is accomplishing its mission. Examples of appropriate performance measures based on the findings in this audit would be

- a. Establishing a target number of days after a pensioner's date of death in which to stop payments and the percentage of time that the target is met (e.g., "stop deceased pensioner's

payments within XX days of their death XX percent of the time").

- b. Establishing a target percentage of overpayments to be recovered within a specified timeframe after it is identified as an overpayment (e.g., "recover XX percent of pension overpayments within XX days after identification as an overpayment").

8. Implement KPMG Recommendations. The Chief Financial Officer should coordinate with the Chief Information Officer and the Commissioner of Human Resources to develop a plan for implementing the recommendations identified by KPMG in their 2001 and 2002 process review reports and in their 2002 management letter. The plan should identify the resources needed to implement each recommendation, responsibility for implementation, and a timeline for implementation. The plan should also prioritize implementation so the recommendations that address the greatest risks for data integrity and fraud are implemented first.

Appendices

APPENDIX 1

Sources and Methodology Used to Identify Deceased Pensioners

We identified deceased pensioners who continued receiving payments through death audit reports provided by The Berwyn Group and Pension Benefit Information (PBI), unsettled estate files in the Pension Division, life insurance claims, and dates of death recorded in the PeopleSoft system. We compared the social security numbers from each source with the pension payment history file for March 2000 through June 2003 to identify those pensioners who were likely to be deceased and received more than one pension payment after their reported month of death.

The data sources provided varying levels of certainty that a pensioner was deceased. Our decision regarding the order of reliability of data was based on the level of certainty provided by the source and whether there was corroborating evidence to indicate that a source provided a reliable basis for concluding that a pensioner was likely to be deceased. We determined that the death audit reports were the most reliable source, but that there was sufficient duplication among the data in the death audit reports and the other sources to support using the data in the unsettled estate files, life insurance claims, and PeopleSoft system as additional sources. The table at the end of this appendix indicates our order of priority of sources for including a pensioner in our deceased list and the number of pensioners identified from each source.

Death Audit Reports. The Berwyn Group and Pension Benefit Information (PBI) provided the city with death audit reports that were based on their comparisons of the city's database of active pensioners with other entities' databases that identify deceased persons. The sources used by The Berwyn Group and PBI include the Social Security Administration's death index, state vital records, Department of Defense, Civil Service Commission, and the Railroad Retirement Board, among others.

Our list included those pensioners whom The Berwyn Group's death audit report identified as a perfect match (93 pensioners) or highly probable (17 pensioners) to be deceased. The perfect match category meant that the pensioner's last name, first name, birthdate, and social security number matched the records of at least one outside source that identifies deceased persons. The highly probable category meant that the pensioner's social security number and at least two other personal data attributes matched an outside source that identifies deceased persons.

Our list also included those pensioners identified in PBI's report as correct matches. Correct matches meant that the social security number and a combination of other criteria matched the records of at least one outside source that identifies deceased persons. PBI considers the correct match category to represent a very high probability that a person is deceased. There were initially 305 social security numbers in the PBI report for persons who received more than one pension payment after their month of death. We reduced this number to 195 because we had already identified 110 of them in The Berwyn Group's death audit report.

Unsettled Estate Files. The Pension Division had a significant number of open files for pensioners who had been reported to the city as deceased over the past several years. During the audit, the Pension Division began following up on these files to determine what was needed to close them. As a result of that process, they provided the Office of City Internal Auditor with a list of 1,269 pensioners who they believed were likely to be deceased. The basis for this determination was that the pensioner's file was moved to the unsettled estate group because the Pension Division had received some form of notification (e.g., a letter or telephone call from the family, or a death certificate) that a pensioner was deceased, although the Pension Division did not necessarily have all the information needed to close the file. We reduced the list from 1,269 to 204 names because 1,065 of the pensioners in the unsettled estate files had not received pension overpayments. We further reduced the 204 names to 67 because we had already identified 137 of these pensioners as deceased through the death audit reports. The remaining 67 unsettled estate files included a death certificate for 45 of the pensioners, which provided a high degree of certainty that the pensioner was deceased. We included the remaining 22 pensioners without a death certificate because the large percentage of names that we had already confirmed as deceased through the death audit reports or who had a death certificate on file indicated that the unsettled estate files were a reliable source for identifying deceased pensioners.

Life Insurance Claims. The Pension Division provided the Office of City Internal Auditor with a list of 298 pensioners who they believed were deceased because the Insurance Division had processed a claim against the pensioner's life insurance policy. Although the Pension Division did not have death certificates for these pensioners, there was a high degree of certainty that the pensioners were likely to be deceased because the Insurance Division has to include a death certificate with each claim processed. We reduced the list of 298 pensioners to 51 because:

- one of the pensioners died after the audit period
- three had not received an overpayment
- one claim had been filed under an incorrect social security number and the Pension Division later determined that the pensioner was still alive
- 207 had already been identified in the death audit reports
- 35 had already been identified through the unsettled estate files

The high percentage of pensioners who had already been verified as deceased through the death audit reports and unsettled estate files provided additional certainty that the life insurance claims were a reliable source for identifying deceased pensioners.

PeopleSoft Records. The Pension Division also provided the Office of City Internal Auditor with a list of 440 pensioners who had a date of death in the PeopleSoft system but had continued to receive pension payments. This list included 294 pensioners whose names were listed on the death audit reports, 64 who were also in the files of unsettled estates (46 with death certificates and 18 without), and 41 who had had claims made against their life insurance policies. Of the remaining 41, we determined that one had recently died and five had not received overpayments. The Pension Division subsequently determined that four were still

alive. We determined that it was reasonable to conclude that pensioners were likely to be deceased if they had a date of death in PeopleSoft system because over 90 percent of the 440 pensioners on this list were also identified through the other sources and less than one percent were determined to still be alive. Thus, we included the remaining 31 pensioners in our list of pensioners who continued to receive payments after their date of death.

Based on the level of certainty of each of the above sources of data, as well as corroborating evidence among the various sources indicating that a pensioner was likely to be deceased, we established the following order of priority for including a pensioner in our list of deceased pensioners who received payments after their date of death. The number of pensioners included in our final list was based on ongoing analysis that was completed as of January 30, 2004. However, we identified the amount of overpayments to each of these pensioners only through June 2003.

Source	Reliability of Source	No. of Pensioners Identified
1. The Berwyn Group	Perfect Match	93
2. The Berwyn Group	Highly Probable	17
3. PBI	Highly Probable	195
4. Unsettled Estates	Death Certificate on File	45
5. Unsettled Estates	No Death Certificate on File	22
6. Life Insurance Claims	No Death Certificate on File	51
7. PeopleSoft Records	No Death Certificate on File	<u>31</u>
	TOTAL	454

APPENDIX 2

Audit Response – Department of Finance



CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

DEPARTMENT OF FINANCE
68 MITCHELL STREET, S.W., SUITE 11100
ATLANTA, GEORGIA 30335-0312
TEL (404) 330-6454 · FAX (404) 658-6667

RICHARD J. ANDERSON
CHIEF FINANCIAL OFFICER
randerson@ci.atlanta.ga.us

MEMORANDUM

TO: Leslie Ward, City Internal Auditor

FROM: Rick Anderson, Chief Financial Officer

SUBJECT: Department of Finance Response to Audit Report on Payments to Deceased Pensioners

DATE: March 29, 2004

We have reviewed the final draft report, Payments to Deceased Pensioners, and offer the following comments on the audit recommendations.

Recommendation 1: Recover Past Overpayments to the Extent Feasible.

Response: The Department of Finance concurs with this recommendation. We intend to work with Department of Law to develop and implement a recovery policy that includes determining the circumstances, disposition, and appropriate courses of action for each payment; establishing priorities based on recovery potential; making appropriate provisions for repayment plans, interest, and administrative fees; pursuing recovery of medical and life insurance premiums whenever possible; and correcting federal and state tax reporting when necessary.

We also think it is important to point out that the types of recovery actions may vary widely depending on the circumstances and disposition of the payments. If, for example, payments made by check were negotiated, in virtually all cases they were by definition fraudulently endorsed, and should be investigated for criminal prosecution. In many of these cases, the city could have recovery recourse against the party that accepted the check in addition to the endorser. In the case of payments made via direct deposit into accounts at financial institutions, there are two possible circumstances. The subject account was either an account solely held by the deceased pensioner, or an account held by the deceased pensioner and one or more other parties. In the first instance, any access of the funds by any party other than the pensioner would be fraudulent, and the city could have recovery recourse against the financial institution in addition to the endorser. In the second instance, direct deposits into joint or several party accounts, pursuit of recovery could be more complicated. Because of the variety of individual situations we may

encounter, substantial investigative and legal support likely will be needed for recovery initiatives to be successful.

We have already begun to request credits from the insurance companies for premium payments made for deceased pensioners. We are receiving credits for premiums paid within ninety (90) days of our requests. Recovering insurance premium costs from overpayment recipients will probably require further analysis of the legal issues involved in individual situations.

Recommendation 2: Identify Deceased Pensioners, Stop Payments, and Recover Overpayments More Promptly in the Future.

Response: Management concurs with this recommendation and has implemented the following steps to improve procedures for identifying deceased pensioners and stopping payments to them:

1. Implemented a quarterly death verification review based on information submitted by a private company.
2. Implemented new procedures for review, processing and documentation of returned checks, direct deposit advises and direct deposits. Upon return of any of these items, all pension benefit payments are stopped until the retiree can submit updated information, proper identification, appropriate justification for closed accounts, etc.
3. Developed a new procedure for communication of information pertaining to deceased retirees from the Insurance Division, Pension staff and Board of Education.
4. Provided to staff in 2003 new forms for notification of death. These forms will be reviewed to determine if enhancements are required.
5. Developed a new procedure requiring Social Security Administration status verification for all retirees who have had accounts closed or mail returned.
6. Assigned staff to read the obituary section in the local newspaper to determine if any City of Atlanta retirees may be listed.

In addition, we plan to take the following additional steps to address other parts of the recommendation:

7. Printing "void after 60 days" on pension benefit checks. The Accounting Bureau will submit to the Pension Division monthly a list of checks, which have failed to clear within 60 days of issuance. The Pension Division will make the appropriate accounting entries to void the checks. Replacement checks will only be subsequently issued if appropriate documentation is submitted from the retiree or beneficiary.

8. Requesting from the Department of Information Technology a periodic exception report to identify cases in which a pensioner's date of death has been entered into the payroll system but the pension payment has not been stopped. We will work with DIT to develop a change in PeopleSoft to link the date of death field with the status change field.
9. Promptly initiating recovery efforts when overpayments are made in the future, including use of direct deposit reversals and stopping payment on checks where appropriate.
10. Using the death verification service for individual verifications that may be necessary between quarterly reports instead of the Social Security Administration.

Recommendation 3: Segregate Major Job Functions.

Management's response: Management concurs with this recommendation and has agreed to begin the process of transferring all record creation functions to the Department of Personnel and Human Resources. In addition, the pension payroll functions will be transferred within the Finance Department from the Pension Division to the Payroll Division. The Pension Division will retain file maintenance and update functions, as well as other administrative activities.

Recommendation 4: Obtain Affidavits to Identify Remarried Spouses.

Response: Management concurs with this recommendation.

Recommendation 5: Monitor the Work of Subordinates.

Response: Management concurs with this recommendation.

Recommendation 6: Improve Filing Procedures.

Response: Management concurs with this recommendation and agrees to develop new procedures for record retrieval and filing.

Recommendation 7: Develop Performance Measures.

Response: Management concurs with this recommendation.

Recommendation 8: Implement KPMG Recommendations.

Response: Management concurs with this recommendation. We will coordinate with the Commissioner of Human Resources and the Chief Information Officer to review the KPMG recommendations and develop a plan of action to implement the recommendations that are still applicable to the current operating environment.

APPENDIX 3

Audit Response – Department of Law



CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

DEPARTMENT OF LAW
68 MITCHELL STREET, S.W.
SUITE 4100
CITY HALL TOWER
ATLANTA, GEORGIA 30303-3520
(404) 330-6400 TELEPHONE
(404) 658-6153 FACSIMILE
www.atlantaga.gov

LINDA K. DISANTIS
CITY ATTORNEY

February 3, 2004

Leslie Ward, City Internal Auditor
Office of City Internal Auditor
68 Mitchell Street, S.W.
Suite 12100
Atlanta, Georgia 30303-3520

Dear Ms. Ward:

Please be advised that the Department of Law has had an opportunity to review the findings and recommendations contained in the Audit Report, wherein a review and examination the Department of Finance's Bureau of Employee Benefits, Pension Division, was undertaken by the Office of the City Internal Auditor to determine the extent of the financial loss to the City of Atlanta's three defined benefit plans, which include the General Employees' Pension Plan, the Police Officers' Pension Plan, and the Firefighters' Pension Plan, as a result of payments to deceased pensioners, as well as an identification of the strengths and weaknesses of the Pension Division's internal controls surrounding pension payments. The report specifically identifies in Recommendation 1 of the Audit Report that "[t]he Chief Financial Officer and the City Attorney should develop and implement a collection policy to recover the overpayments to deceased pensioners that were identified in this report, as well as a uniform collection policy to recover overpayments to deceased pensioners that are identified in the future." Based upon my review of Recommendation 1 of the Audit report and its four inclusive subsections, I have briefly identified below the Department of Law's assessment of its role in the implementation of these recommendations.

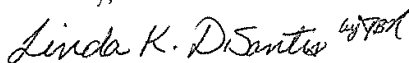
The Department of Law and the City Attorney, the chief legal advisor for the City of Atlanta, in the performance of the duties prescribed in Section 2-396 of the Code of Ordinances of the City of Atlanta, Georgia will cooperatively work with the Department of Finance and the Chief Financial Officer to effectuate the development of a collection policy to recover the overpayments identified during the course of the audit performed by the Office of the City Internal Auditor, as well as any overpayments identified prospectively. Based on my assessment of the situation, it is anticipated that an effective collection policy will seek to prescribe the procedures for determination, assertion, collection, compromise,

waiver and termination of claims in favor of the City of Atlanta, Georgia for all erroneous benefits overpayments arising out of administration of the City of Atlanta's three defined benefit plans, which include the General Employees' Pension Plan, the Police Officers' Pension Plan, and the Firefighters' Pension Plan. As referenced in subsection (c)(3) of Recommendation 1, it is anticipated that the collection policy will clearly delineate the imposition of interest charges and/or others fee, as well as the standard notification and time parameters for the Department of Finance and an overpayment beneficiary to arrange for the reimbursement of pension overpayments. Additionally, it is further anticipated that the collection policy will provide that all overpayments, upon which a legal basis for recovery exists, will be subject to collection efforts.

It is reasonable to anticipate that based on the information currently available, the development of the collection policy can be accomplished prior to or no later than the mid 2004 second quarter. However, it is important to note that during the course of the implementation phase, the Department of Finance will have to identify and measure the resource allocation of available human capital. This phase will determine the ownership responsibility, as well as resources available and required to implement the collection policy. Accordingly, an analysis of current Department of Finance human capital is a matter more appropriately addressed by the Department of Finance. What we do not want to do is develop a policy without having a plan in place to ensure adequate implementation. Although the Department of Law will assist with legal actions such as collections or referrals for criminal prosecution, the day to day work to make the procedure work rests elsewhere.

If you require any additional information from the Department of Law or have any questions or concerns, please feel free to contact me directly. The Department of Law looks forward to the successful development and implementation of an effective collection policy to address the recovery of the overpayments identified during the course of the audit performed by the Office of the City Internal Auditor, as well as any overpayments identified prospectively.

Sincerely,

Handwritten signature of Linda K. DiSantis in cursive script, with a small 'LKD' monogram to the right.

Linda K. DiSantis
City Attorney

APPENDIX 4

Audit Response – Department of Human Resources



CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

68 MITCHELL STREET, S.W., • ATLANTA, GEORGIA 30303-0306
TEL: (404) 330-6360 • FAX: (404) 658-6892

DEPARTMENT OF HUMAN RESOURCES
BENITA C. RANSOM
COMMISSIONER

To: Leslie Ward, Internal Auditor

From: Benita C. Ransom *BCK*

Date: January 23, 2004

Re: Response to Draft Audit Report – Payments to Deceased Pensioners

As you requested, we have reviewed the draft audit report on payments to deceased pensioners and have the following general responses to Recommendations 3 and 8:

- The proposals in Recommendation 3 (Segregate Major Job Functions) to consolidate payroll functions for regular employees and pensioners, assign file maintenance to Pension and master file creation to Human Resources could reduce opportunities for fraud, assuming the current proposal to outsource certain employee payroll functions also includes the payroll for pension.
- The assignment of security classes should be consistent with and limited to these narrower job functions.
- Since Human Resources presently has responsibility for creating employee master files, it would seem logical to also assign responsibility for the creation of master files for beneficiaries and School Board employees to our department.
- However, if these responsibilities are transferred to HR, sufficient staff to handle the increased workload should also be transferred. We downsized in 2003 in anticipation of outsourcing most of our transactional activities, and HR staff has found the volume of work involved in master file creation and maintenance to be larger than anticipated. Adding additional responsibilities to an already staggering workload could be problematic.
- As for Recommendation 8 (Implement KPMG Recommendations), we agree that many of the 2001 and 2002 recommendations not yet implemented could increase efficiency and reduce opportunities for fraud. We look forward to working with DIT and Finance to establish priorities, identify resources, assign responsibilities, and establish a timeline for implementation of these recommendations.

Attached is a more detailed analysis of proposals in Recommendations 3.

RECOMMENDATION

3. Segregate Major Job Functions

Process	Security Class Levels
<p>HR & Pension should develop process to handle required documents (other than TAD's) for HR processors to enter information in system. (Retirees, beneficiaries, Board of Education employees, employees separating from the City, deceased pensioners, as well as name and address changes.</p> <p>Develop workflow process to ensure data is entered timely and required documents are submitted</p>	<ul style="list-style-type: none"> N/A
<p>HR & Pension should develop Pension checklist for creating master files on retirees, beneficiaries, employees separating from the City and opt to receive lump sum total of pension payment, Board of Education employees, deceased pensioners</p>	<ul style="list-style-type: none"> Checklist should be created online in PeopleSoft with view only access to HR processors
<p>HR should create master data files in PeopleSoft system on retirees, beneficiaries, employees separating from the City and opt to receive lump sum total of pension payment and Board of Education employees, deceased pensioners, as well as name and address changes</p> <p>Module and Panels</p> <ul style="list-style-type: none"> Administer Workforce <ol style="list-style-type: none"> Personal Data Panels Job Data Panels 	<ul style="list-style-type: none"> HR processors should be assigned add and update capability HR senior level processors should be assigned add, update and correction capability Finance/Pension processors should be assigned update capability (compensation panel only) SR level Finance/Pension process should be assigned correction capability (compensation panel only) Report should be generated monthly to reflect new entries and adjustments to be reviewed by managers
<p>Pension should maintain data files in PeopleSoft system as it relates to retirees, beneficiaries, employees separating from the City and opt to receive lump sum total</p>	<ul style="list-style-type: none"> Finance/Pension processors should continue to calculate and update the compensation information on the pensioners and/or separated

of pension payment and Board of Education employees, deceased pensioners Module and Panels <ul style="list-style-type: none"> • Administer Workforce <ol style="list-style-type: none"> 1. Compensation Panel in Job Data Only 	employees who opt to receive lump sum total of pension payment
Finance/Pension should be responsible for check amount and payouts	

APPENDIX 5

Audit Response – Department of Information Technology



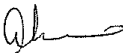
SHIRLEY FRANKLIN
MAYOR

CITY OF ATLANTA
55 TRINITY AVENUE, S.W., SUITE G-300
ATLANTA, GEORGIA 30303
(404) 330-6110-FAX (404) 658-6688
Internet Home Page: www.ci.atlanta.ga.us

Abe A Kani
Chief Information Officer
Department of Information Technology

MEMORANDUM

TO: Leslie Ward, City Auditor
Audit Department

FROM: Abe Kani, Chief Information Officer 

SUBJECT: DIT formal response to Pension Audit Recommendations

Please find below the Department of Information Technology's formal written responses to the recommendations made by the Payments to Deceased Pensioners Audit Report dated January 7, 2004.

Recommendation 3:

I generally agree with the recommendation. I further propose the following actions to implement this recommendation.

1. The Audit Department should share with Finance and Human Resources a copy of the User Access Rights report generated as a result of the audit process. Each respective department must review the report to determine whether their application users should continue to have the same access privileges. Each department will submit to DIT a list of any changes that must be made to the level of each user access rights deemed appropriate by each department. DIT will make the requested changes immediately once the reports have been received.
2. DIT will develop an Application Access Authorization Form and the necessary process that will require application access rights to be submitted in writing by each department signed by the department head. DIT currently requires that this type of request be submitted via an Information Service Request (ISR) form, which is submitted by each department's IT Liaison. The creation of an Application Access Authorization Form will add additional level of control to ensure each department is hold responsible for the issuance of specific access application rights.
3. I urge each department to take over the responsibility for administering application access rights for their own users. DIT will continue to provide and administer access rights to the infrastructure including hardware, operating system, and the network. This will ensure that each department retains full control over their intellectual property.



SHIRLEY FRANKLIN
MAYOR

CITY OF ATLANTA
55 TRINITY AVENUE, S.W., SUITE G-300
ATLANTA, GEORGIA 30303
(404) 330-6110-FAX (404) 658-6688
Internet Home Page: www.ci.atlanta.ga.us

Abe A Kani
Chief Information Officer
Department of Information Technology

Recommendation 8:

I agree with the recommendation. Further, it is my understanding that some of the recommendations made by KPMG had already been implemented. However, DIT is in full agreement that these recommendations be revisited jointly with Finance and Human Resources to determine which KPMG recommendations should be implemented.